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MANAGEMENT AUDIT REPORT

of the

BUREAU OF BUYING

in the

PURCHASING DEPARTMENT

Harvey M. Rose
Budget Analyst

January 24, 1972

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INTRODUCTION

The Bureau of Buying is an organizational unit within the Purchasing Department. This Department is headed by the Purchaser of Supplies who is appointed by the Chief Administrative Officer. The Purchaser of Supplies is responsible for the administration of the Department.

The function of the Bureau of Buying is to procure materials, supplies, equipment, insurance and contracts for services for all City and County Departments, for the Unified School District and for the Community College District. The Bureau is not responsible for certain Charter stipulated purchases including purchases for construction operations and purchases of real property and improvements.

The main legal authority for the activities performed by the Bureau of Buying is based on Sections 7.100, 7.103 and 7.200 of the Charter of the City and County of San Francisco and Chapter 21 of the San Francisco Administrative Code.

In fiscal year 1971-72, the Bureau had 14 permanent authorized personnel. The budgeted expenditures amounted to $286,700.

In conducting this management audit, employees and management personnel at all levels within the Bureau were interviewed. The Purchaser of Supplies and his entire staff cooperated fully.

The audit scope included interviews with employees of other City and County Departments, officials in other Governmental agencies and officials in outside companies.

It is estimated that this audit, the total cost of which amounted to $3,024, will conservatively result in a combination of increased annual revenue and reduced annual expenditures of $140,000 upon the proper implementation of the audit recommendations.

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ORGANIZATION, MANAGEMENT AND PERSONNEL

The Bureau of Buying is headed by an Assistant Director of Purchasing and Services who reports to the Purchaser of Supplies. These two personnel are responsible for the day-to-day administrative activities of the Bureau and the handling of the various official outside contacts.

The other personnel in the Bureau, including a Senior Purchaser, an Assistant Purchaser and 10 Purchasers are responsible for the purchase of the various items required by all City and County Departments and by the Unified School District and the Community College District. In fiscal year 1970-71 approximately 38,000 purchases were made amounting to over $58,000,000. Specific types of items to be purchased are generally assigned to the various Purchasers.

For those items which must be purchased on a competitive basis, contract awards are made to the lowest reliable and responsible bidders meeting the contract specifications as determined through the Purchasers' evaluations of various bids submitted by the vendors. A review of vendors' bids regarding 25 purchases, made under competitive conditions by the Bureau, disclosed that in 23 out of the 25 purchases, contracts were awarded to the lowest bidder. In the 2 cases where the lowest bidder was not awarded the contract, the Bureau had adequate documentation to justify as to why this bid was unacceptable.

Some items, in accordance with provisions of Section 21.18 of the Administrative Code, are purchased without the obtaining of competitive bids from vendors. In general, the reasons for not requiring competitive bidding are that there is only one known vendor who

can furnish the item or that the total amount of the purchase does not exceed $100. However some items falling in the latter category are purchased competitively.

In general, the purchasing procedures as implemented by the Bureau of Buying have resulted in items being procured in an economical manner. Contacts with personnel, utilizing the services of the Bureau of Buying, in 14 departments disclosed that these personnel were generally complimentary of the Bureau.

While the Bureau's procedures have been generally economical in the purchasing of the various items and while the Bureau's management and employees are generally implementing these procedures in an efficient and effective manner, there are some areas, as detailed in the Departmental Operations section of the report where additional efficiencies and economies can be effected.

DEPARTMENTAL OPERATIONS

Contracts for the Purchase of Uniforms

The Purchaser's specifications pertaining to the award of contracts for uniforms purchased for the Police, Fire and Municipal Railway Departments have required that the uniforms be union made and that they bear a union label.

As a result of not complying with these specifications under two contracts, the lowest bids received were rejected without further analysis of such bids. Under one contract, the low bidder's unit price was approximately 9% less than the vendor who was awarded the contract while under another contract, the low bidder's unit price was approximately 3% less than the vendor who was awarded the contract.

In total, there have been six contracts for uniforms requiring the union specifications. This current policy was initially implemented for Municipal Railway Department uniforms in a contract awarded in January, 1968. The purchase of uniforms for the Fire and Police Departments did not begin until December, 1970 and February, 1971 respectively. Uniform purchases under these contracts, wherein additional quantities can be purchased through 1973-74, have amounted to approximately $650,000. The following data pertain to these six contracts:

Contract	No. of vendors invited to bid	No. of bids received	% of bidders responding
1	26	5	19
2	16	3	19
3	6	2	33
4	45	5	11
5	44	2	5
6	25	5	20
Totals	162	22	14

Whether or not the number of bids received would have been greater without the union made and union label requirements cannot be determined.

No other contracts except uniform contracts awarded by the Purchaser of Supplies have required that the items purchased be union made and bear a union label. However, the Purchaser of Supplies stated that, in his opinion, the public interest is best served by this requirement for uniform contracts.

Since the union made, union label requirements could have resulted in increased uniform costs to the City and County, and can continue to do so, the Purchaser of Supplies should obtain clarification from the Chief Administrative Officer as to the economic justification for continuing this policy. This is the subject of Recommendation Number 1. The reduced annual expenditures to result from this recommendation cannot be fairly estimated.

In connection with the foregoing, note has been taken of Sections 21.43 and 21.50 of the San Francisco Administrative Code which refer to the specifications regarding Police, Fire and Municipal Railway uniform procurement. These Sections state in part "...but such specifications must not be so narrowly drawn as to prevent or unreasonably inhibit competitive bidding."

Automobiles, Trucks and Office Furniture

The Department's function concerning the purchase of automobiles and office furniture has essentially been to obtain such budgeted items at the lowest available prices. The Department's position has been that once such items have been approved in the budget, it has no authority to question the quality or necessity of the items being purchased.

In a letter dated June 25, 1970, the Purchaser of Supplies stated "Traditionally, the departments for whom we purchase have determined the quality level (and consequently the price range) of the items of equipment they desire. This is controlled by the funds made available to them for the articles to be purchased. The make or brand is determined by competitive bidding procedure." Therefore, there has been no standardization of quality level required in the purchase of automobiles.

There were 112 automobiles in the amount of $330,637 provided for in the fiscal year 1971-72 budget. Personnel in the Purchasing Department stated that for most departments, excluding the Police and Fire Departments, a medium size or compact size automobile with automatic transmission and power steering would adequately serve the department's needs. However as of January 1, 1972, the City and County owned only 118 of such automobiles representing 23% of their total number of automobiles excluding those assigned to the Police and Fire Departments. 406 or 77% of the automobiles owned by the City and County were larger size, more expensive automobiles. As purchased currently, these larger size automobiles contain power brakes and in some instances other optional equipment in addition to

automatic transmission and power steering.

As one example of what can happen without a standardization policy, despite a specific action of the Finance Committee limiting a department's purchase of one automobile to $2,400, an automobile with optional equipment including air conditioning and radio amounting to $3,389 was purchased.

There is also no standardization of quality level required in the purchase of office furniture including desks and chairs. Purchasing Department personnel stated that an adequate desk for most employees can be purchased for $177 whereas some departments have had desks purchased for up to $309 or 75% more than a desk considered to be suitable. Likewise, an adequate chair for most employees according to Purchasing Department personnel can be purchased for $62 although some departments have had chairs purchased for $169 or 173% more than a chair considered to be suitable.

Further, the Purchasing Department has entered into contractual agreements for the rental of some automobiles and trucks year after year since the using departments have been provided budgeted funds for this purpose. The monthly rental cost of the automobiles is $158 or 114% in excess of the $74 monthly cost, including maintenance, repair and insurance costs, applicable to a comparable automobile purchased by the City and County. The monthly rental cost of trucks is $164 or 148% in excess of the $66 monthly cost, including maintenance, repair and insurance costs, applicable to a comparable truck purchased by the City and County.

The funds provided for the rental costs of these vehicles are not clearly indicated in the budget since they are included in

capital improvement projects, and therefore the vehicles are not requested by departments as separate equipment items which would be necessary if they were purchased. With the same amount of funds currently provided in the budget for the rental of these automobiles and trucks, approximately 9 automobiles and 16 trucks could have been purchased annually by the City and County.

In order to effect necessary economies, the Purchaser of Supplies should recommend to the Board of Supervisors a policy for standardizing the quality level pertaining to the purchase of automobiles and office furniture. Further, the rental of automobiles and trucks, except for short term special needs, should be discontinued. This is the subject of Recommendation Number 2. It is estimated that the implementation of this recommendation will result in reduced annual expenditures of $50,000.

Reimbursement for Administrative Expenditures

In the performance of the purchasing functions for the Airports, Hetch Hetchy, Port, and Water Departments, each of which requires no ad valorem tax support for its operations, and for the Community College District and the Unified School District, each of which is outside the control of the Mayor and the Board of Supervisors, the Purchasing Department is not being fully reimbursed for its administrative expenditures incurred as is evidenced by the following data:

Organizations receiving services of Purchasing Department	Current annual expenditures incurred by the Purchasing Department	Current annual reimbursement	Annual deficiency
Airports Department	$ 10,561	$ - 0 -	$10,561
Hetch Hetchy Project	746	- 0 -	746
Port Department	21,123	- 0 -	21,123
Water Department	32,305	- 0 -	32,305
Community College District	22,987	14,300	8,687
Unified School District	82,627	65,736	16,891
Totals	$170,349	$80,036	$90,313

This annual deficiency amounting to $90,313 results in increased ad valorem taxes required for City and County purposes over which the Mayor and the Board of Supervisors have jurisdiction.

In order that the Purchasing Department is fully reimbursed for its administrative expenditures in fulfilling its purchasing functions for the above named organizations, and in order that ad valorem taxes are correctly reduced, the Purchaser of Supplies should request the Mayor to effect the correct annual reimbursements from the applicable organizations through the budgetary process. This is the subject of Recommendation Number 3. It is estimated that the implementation of this recommendation will result in increased annual revenue of $90,000.

RECOMMENDATIONS

It is recommended that the Purchaser of Supplies:

1. Obtain clarification from the Chief Administrative Officer as to the economic justification of the Purchaser's policy requiring that uniforms purchased for the Police, Fire and Municipal Railway Departments be union made and bear a union label.
2. Propose a policy for standardizing the quality level pertaining to the purchase of automobiles and office furniture and recommend to the Board of Supervisors the adoption of this policy as well as the discontinuance, except for short term special needs, of the rental of automobiles and trucks.
3. Request the Mayor, through the budgetary process, to effect the correct annual reimbursements to the Purchasing Department for its administrative expenditures incurred for the Airports, Hetch Hetchy, Port, and Water Departments, the Community College District and the Unified School District.